

EPS

“Reg. U.S. Pat. & Tm. Off.”

Role of Financing in Building an ESCO/EMC Industry

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Energy Services Company (“ESCO”)

A Performance Contracting Company that:

- **develops, finances and implements energy efficiency projects (EEP) on a turn-key basis**
 - **risks repayment of the capital investment on actual savings equaling the related debt service**
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Project Financing is Critical Ingredient for ESCO Industry Development

- **ESCO is a Service Company not a Bank!!!**
 - **ESCO cannot invest its working capital to develop & implement EEPs unless “reliable” and “commercially viable” long-term Project Financing is available.**
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Project Financing is Most Significant ESCO Barrier

- **Lack of “reliable” and “commercially viable” long-term financing for energy efficiency projects is the most significant barrier to ESCO industry development and growth in new markets**
 - **Availability of Project Financing is mandatory for ESCO to deliver “paid from savings” business model.**
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Cause of Financing Barrier

- **Problem is not caused by a lack of available funding capacity in many/most local markets.**
 - **Caused by inability of energy efficiency projects (EEP) to access existing funds:**
 - **disconnect between traditional Asset-based lending to corporations vs. Cash Flow-based financing to EEPs**
 - **Solutions are difficult:**
 - **Because energy efficiency markets are not sufficiently developed to motivate local banks to invest in setting up an EEP lending infrastructure**
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Typical ESCO Savings Project

Construction Price to ESCO	\$1,000,000
Construction Interest (12 months @ 14%)	<u>70,000</u>
TOTAL AMOUNT FINANCED:	<u>\$1,070,000</u>
Annual Savings	330,000
Debt Service - 7 years @ 12.5%	<u>(230,000)</u>
CASH AVAILABLE TO SHARE	<u>\$ 100,000</u>

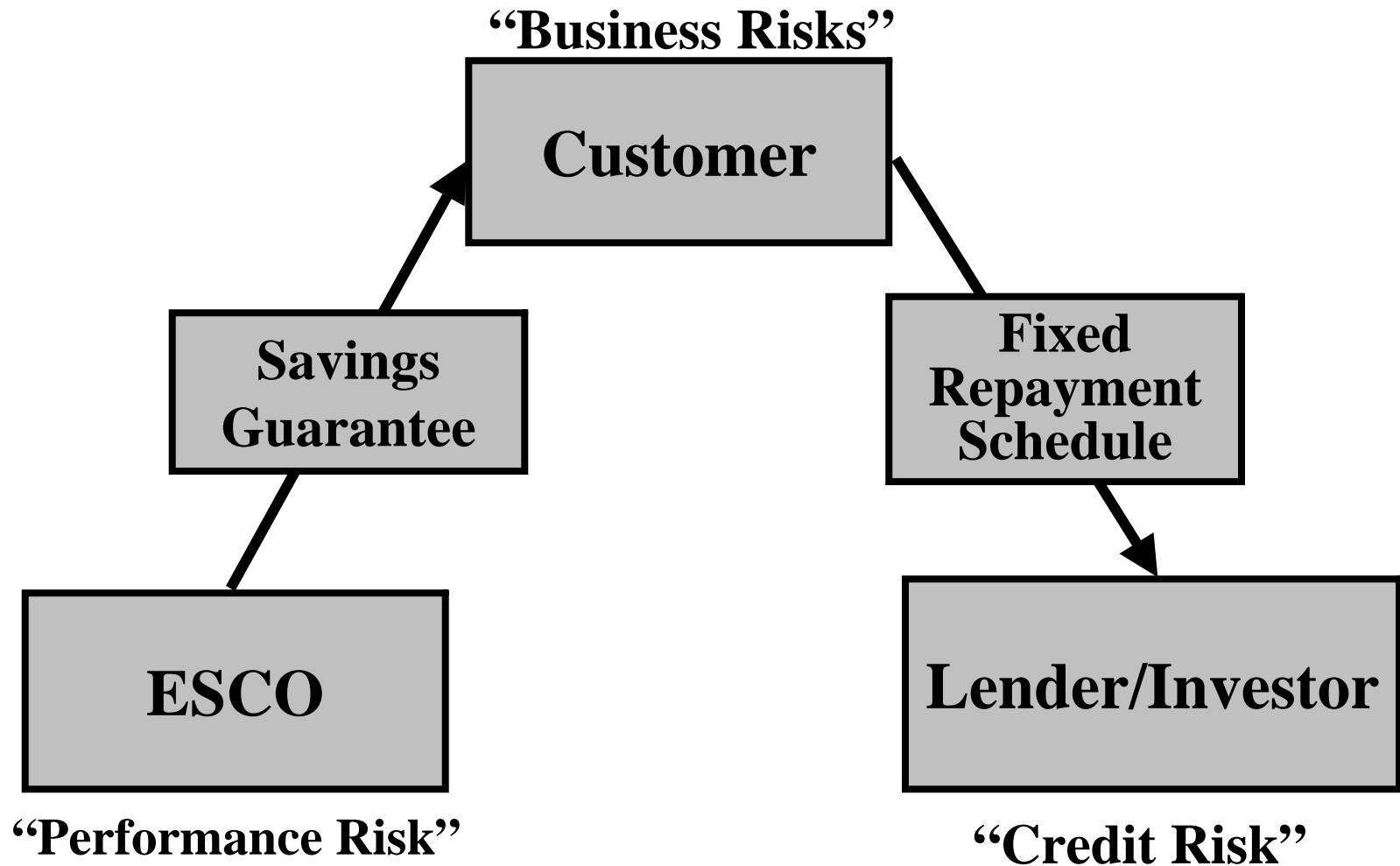
100% FINANCED

Two Primary ESCO Structures

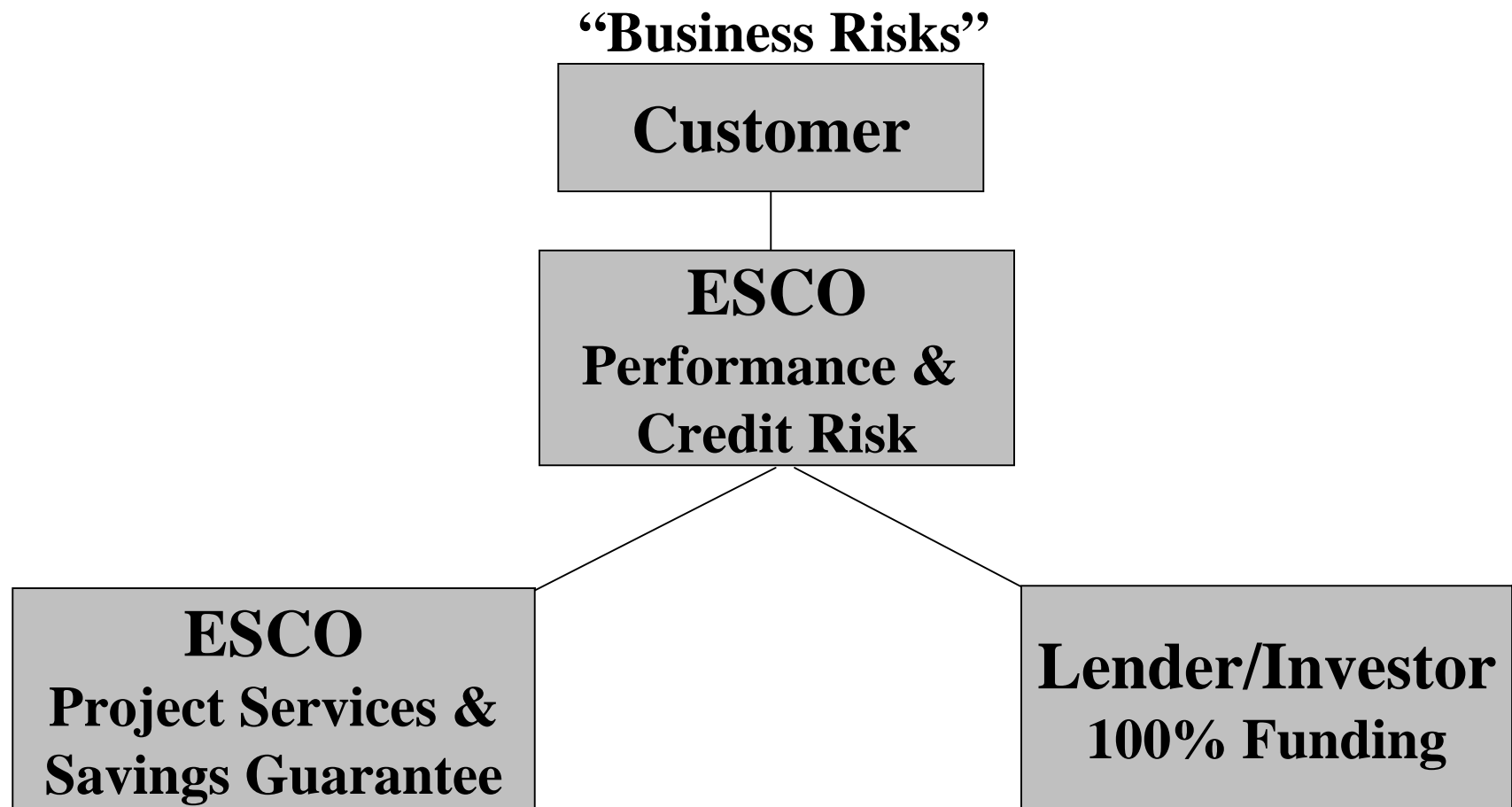
- **Guaranteed Savings – (US =90%)**
- **Shared Savings – (US =10%)**



Guaranteed Savings Structure



Shared Savings Structure



Guaranteed vs. Shared Savings

<u>Salient Features</u>	<u>Guaranteed Savings</u>	<u>Shared Savings</u>
Loan Repayment:	Customer	ESCO
Credit Risk:	Lender	ESCO
Performance Risk	ESCO	ESCO/Lender
Lending Risk	Lower	Higher
Financing Costs:	Lower	Higher
Project Savings:	Higher	Lower
Project Size:	Larger	Smaller
Project Scope :	Comprehensive	Quick Paybacks
ESCO Balance Sheet	Smaller	Larger

Market Application Summary

- **Shared Savings Structure:**

- Good introductory model for developing markets because Customers assume no risk
- Limits long-term growth and competition of the ESCO and Financing Industries

- **Guaranteed Savings Structure:**

- Difficult to use in introducing the ESCO concept for developing markets because it requires customers to assume investment repayment risk
 - Fosters long-term growth of the ESCO and Financing Industries.
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Policy Solutions to Promote Project Financing

1. **Develop an International Energy Efficiency Financing Protocol (IEEFP):**
 - becomes the “blue print” for local and regional financial institutions to finance end-use EEP in international markets
 2. **Create an EEP Financing Fund:**
 - becomes a “Market Driver” for local banks to establish an EEP lending infrastructure, and for end-use consumers to implement EEP
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Summary of International Energy Efficiency Financing Protocol

- **Adopted by international financial community and governmental stakeholders**
 - **Tailored for each local market**
 - **Mandates use of International Performance Monitoring and Verification Protocol (IPMVP)**
 - **Becomes the guide “blue print” to train local banks on the intricacies of financing EEPs**
 - **Creates sustainable infrastructure for financing of EEPs by local banks in international markets**
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“IEEFP” Content

- **Procedures for Evaluating EEPs**
 - **Risk Assessment Guidelines for EEPs**
 - **Investment Criteria for EEPs**
 - **Standard Loan and Security Agreements**
 - **Standard ESCO & Construction Agreements**
 - **Standard Loan Applications & Data**
 - **Standard Credit Analysis & Approval**
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EEP Financing Fund

- **Establish National Fund**
 - **Obtain Funding from Ratepayer Fees:**
 - **U.S. “System Benefit Charge”**
 - **Brazil through 1% ANEEL Fund**
 - **Thailand through the ECF (\$ 250 Million)**
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Market Drivers of EEP Fund

- **Utilize EEP Financing Funds to:**
 - **Increase returns to Local Banks that utilize IEEFP – Bank Incentive**
 - **Guarantee a Portion of Loan Losses to Local Banks – Bank Incentive**
 - **Cover extended Repayment Terms – Bank Incentive**
 - **“Buy-Down” Interest Rate to Below Market Rates – Customer Incentive**
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EEP Financing Fund Profile

- **No Government access or intervention**
 - **Repayment in Local Currency**
 - **Managed by individuals who have previous private sector project financing experience**
 - **Provide Fast Loan Approval - “IEEFP”**
 - **Require use of “IPMVP”**
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Benefits of IEEFP & EEP Fund

- **Creates a Commercial Lending Sector for financing EEPs that will be sustained!**
 - **Trains Local/Regional Banking Staff to finance EEPs - “Capacity Building”**
 - **Eliminates Currency Devaluation Risk barrier**
 - **Assist in quick development of ESCO industry**
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